

VZCZCXR09083
PP RUEHGR
DE RUEHK #0361/01 1272008
ZNR UUUUU ZZH
P 072008Z MAY 09
FM AMEMBASSY KINGSTON
TO RUEHC/SECSTATE WASHDC PRIORITY 7599
INFO RUCNCOM/EC CARICOM COLLECTIVE
RUEATRS/DEPT OF TREASURY WASHDC

UNCLAS SECTION 01 OF 02 KINGSTON 000361

SIPDIS
SENSITIVE

STATE FOR WHA/CAR (ACADIEUX) (VDEPIRRO) (WSMITH)
WHA/EPSC (MROONEY)(FCORNEILLE)
EEB/ESC/IEC/EPC (MMcMANUS)
SANTO DOMINGO FOR FCS AND FAS
TREASURY FOR ERIN NEPHEW
USTDA FOR NATHAN YOUNG AND PATRICIA ARRIAGADA
OPIC FOR ALISON GERMAK

DEPT PASS TO USTR (CATHERINE HINCKLEY)

E.O. 12958: N/A

TAGS: ECON ENRG SENV EAIR EMIN ASEC SOCI ETRD TRSY OPIC
AID, OAS, IBRD, IDB, JM, XL
SUBJECT: JAMAICA: PM GOLDING'S 2009-10 BUDGET PRESENTATION

REF: A) KINGSTON 315
B) KINGSTON 269
C) KINGSTON 245
D) KINGSTON 223

¶11. (SBU) SUMMARY: Responding to criticism from the opposing People's National Party (PNP), Prime Minister (PM) Bruce Golding defended his proposed national budget before Members of Parliament on May 5. During the speech attended by emboffs, Golding detailed the dire economic reality facing the Government of Jamaica (GOJ) and the resulting necessity of enhancing revenue through measures such as the increase of the special consumption tax (SCT) on gasoline. To decrease dependence on petroleum, the GOJ will invite investment proposals for the development of power generation from liquid natural gas (LNG). The GOJ's lending institutions will bolster efforts to provide access to capital for business development, and a new public-private partnership for the creation of a venture capital company was announced. The Opposition's call for diverting funds from the Universal Access Fund (UAF) for infrastructure projects was discredited, with Golding mentioning the "hostile response of U.S. regulatory authorities" on the issue. Golding acknowledged that if conditions worsen, a return to the IMF for support is not out of the question. Golding praised President Obama's recent signaling of recommitment to the Caribbean. Despite rumors of public demonstrations to reject the JD 18 billion (USD 205 million) tax package, no serious protests materialized. End Summary.

"THE TIDE HAS GONE OUT"

¶12. (SBU) Golding detailed Jamaica's grim economic situation in the climate of global recession. Since 1970, the Jamaican economy has grown by more than 3 percent only five times. In the last four decades, the rest of the CARICOM community has grown cumulatively by 173 percent. During the same period, the Jamaican economy has grown by less than 25 percent. Jamaica's per capita income is the fourth lowest in the region. Golding cited the import-export imbalance, the fallout in bauxite/ alumina, and the decline in remittances as particular sources of economic strain. In short, the "tide has gone out," and the Jamaican economy has been left high dry. Golding cited the tourism industry, which experienced 4 percent growth during 2008, as Jamaica's sole bright spot.

NO CHOICE BUT TO RAISE TAXES

¶13. (SBU) Given the economic climate, Golding said the GOJ has no choice but to raise taxes. The tax package is based on recommendations of the Tax Policy Review Committee, which was established in 2003 by the previous administration. The proposed

tax increases are actually less severe than the original committee recommendations, which included applying the general consumption tax (GCT) on all products, including gasoline and electricity. Responding to criticisms of the GCT being levied on books and computers, Golding said changes to the proposal will be announced by Finance Minister Audley Shaw offering certain waivers for students. Golding reiterated that this tax restructuring will further the country's shift to direct from indirect taxation. Golding called the proposed changes "more efficient, equitable, and simpler to administer." The tax plan is expected to generate JD 18 billion (USD 205 million) in net additional revenue (reftels).

"A STEPPING STONE, NOT A STUMBLING BLOCK"

¶4. (SBU) Golding challenged the GOJ to use the current economic crisis to foster reform, growth, and eventual prosperity. Reform measures will include freezing non-critical job vacancies and moving some public sector employees to clerical police jobs, which will allow trained police officers to be out on the streets. In terms of fiscal responsibility, Golding said Jamaica must end its dependence on excessive borrowing. Still, the administration will consider a return to the IMF for assistance if necessary, especially given the possibility of the IMF offering budgetary support. Golding cited soaring energy costs as a major economic hurdle for Jamaica. According to the PM, "the reopening of our alumina plants even after market conditions improve hangs on our ability to obtain cheaper energy." In December 2007, one kilowatt hour (Kwh) of power in the US costs just over six US cents, while in Jamaica, the same KWH costs nearly 21 cents. (Note: Energy costs rose as high as 34 cents per Kwh during the summer of 2008, but have declined slightly to 30 cents per Kwh. End Note). The GOJ has determined that LNG should be a priority for energy diversification. (Note: In recent months,

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the GOJ also said it would pursue a major coal power generation project. End Note.)

ACCESS TO CAPITAL

¶5. (SBU) Small and medium enterprises are a vital part of the Jamaican economy. To facilitate growth, the GOJ will partner with the private sector to establish a credit bureau to secure loans for individuals who lack collateral, but carry solid credit histories. The GOJ also will launch a new venture capital company to facilitate launching new businesses. A youth entrepreneurship program will help address the lack of opportunity for high school graduates. Students can submit business proposals, and students whose proposals are accepted will receive business training and be eligible for business financing. To fill workforce voids in the agriculture and healthcare sectors, student loan rates will be cut to 4 percent from 12 percent for students who embark on careers in these fields.

UAF WILL NOT BE RAIDED

¶6. (SBU) Golding accepted the Opposition's call for JD 1 billion to be shifted from Jamaica's Tourism Enhancement Fund (TEF) to finance infrastructure in squatter settlements surrounding resort areas. However, the call for the diversion of funds from the UAF for similar infrastructure development projects was sharply rejected. Golding, citing the displeasure of U.S. authorities, said the UAF was to be used exclusively for internet expansion projects and e-learning.

USA-JAMAICA RELATIONS: MOVING FORWARD

¶7. (SBU) Reflecting on the meeting between President Obama and Latin American and Caribbean leaders during April's Summit of the Americas, Golding expressed his pleasure with the USG's recommitment to the Caribbean. Joint issues of concern include the global economy, immigration, narco-trafficking, the gun trade, and offshore banking. Caricom leaders will meet with President Obama in July to continue the dialogue. Golding mentioned the GOJ's desire for a change in U.S. policy toward Cuba, but said the path to achieve this was through diplomacy.

COMMENT

¶8. (SBU) Given fears of public protests in response to raising taxes amid a major economic downturn, Golding faced a major challenge in defending the budget. He appears to have succeeded in doling out enough social measures to placate the poor, but still targeting spending and cuts in a way that should prepare Jamaica for future growth. In a wise political move, he conceded to the PNP on the issue of the TEF, while holding his ground on the narrow use of UAF funding. There is no indication at this time that the GOJ will seek to transfer UAF resources to infrastructure projects. The move to LNG is a step in the right direction in terms of diversifying Jamaica's energy supply, but at a price tag in the hundreds of millions of dollars, it is not likely to begin without major foreign direct investment. Although the venture capital company could be an important factor in future economic growth, Jamaicans' cultural reservations about shared company ownership may make it difficult for the project to flourish. The lack of mass demonstrations signals the public's acceptance of the budget and the acknowledgment of the dire economic conditions facing Jamaica and the world. End Comment.

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